



# Michigan Commission

2000 – 2001

## on Public Pension and Retiree Health Benefits



### *Commissioners:*

Ambassador Peter F. Secchia  
*Chairperson*

Ramona Henderson Pearson  
*Vice Chairperson*

William Birdseye

Jeffrey Hoffman

Michael Nye

Louis Schimmel

Michael J. VanOverbeke

Douglas J. Williams

Richard A. Young



# Michigan Commission on Public Pension and Retiree Health Benefits

2000–2001

*"Apart from the moral responsibility of providing for public employees upon retirement, state officials must be concerned with the financial health of local pension plans, because, in many cases the responsibility for bailing out an insolvent plan falls on the state."*

— Ray Sheppach,  
Executive Director,  
National Governors Association

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## STATE OF MICHIGAN



JOHN ENGLER, Governor

**MICHIGAN COMMISSION ON PUBLIC PENSION  
AND RETIREE HEALTH BENEFITS**

PETER F. SECCHIA, Chairperson

Commissioners:  
WILLIAM BIRDSEYE  
MICHAEL NYE  
LOUIS SCHIMMEL  
DOUGLAS J. WILLIAMS

Commissioners:  
JEFFREY HOFFMAN  
RAMONA HENDERSON PEARSON  
MICHAEL J. VANOVERBEKE  
RICHARD A. YOUNG

The Honorable John M. Engler  
Governor, State of Michigan  
Lansing, Michigan

February 20, 2001

Dear Governor Engler,

Every year, Michigan taxpayers contribute hundreds of millions of dollars to the public retirement funds of our state and local government employees. Those employees depend on their retirement funds to cover the cost of their retirement for many years after they leave government service. For many employees, this also includes their retirement health care.

To examine whether this vast, complex and far-flung system is efficiently meeting the needs of taxpayers and protecting the interests of employees and retirees, in late 1999 you appointed a commission of citizens, comprised of professional actuaries, retirement lawyers, public pension system managers and representatives of the public.

Executive Order 1999-13 establishing the commission stated that "the funding, management, oversight and fiscal integrity of public pension and retirement systems is a matter of paramount public importance which bears directly upon the fiscal integrity of the state and its political subdivisions..."

You charged the Michigan Commission on Public Pension and Retiree Health Benefits with:

- *Reviewing state laws affecting retirement systems.*
- *Assessing the adequacy of funding of those systems.*
- *Making recommendations for changing state laws affecting retirement systems, where appropriate.*

The commission met throughout 2000, holding a number of public meetings. We learned much. Michigan's statutes dealing with state and local public pension plans deserve close scrutiny because these types of pension plans are not covered by the federal Employee Retirement Income Security Act of 1975 (ERISA), which governs private sector pension funds. This puts tremendous responsibility on state and local governments to regulate themselves, and to periodically examine practices to see if they are meeting the needs of taxpayers and government employees.

Key findings and recommendations are discussed in detail in the pages that follow. But a few stood out:

- **The vast majority of state and local pension systems in Michigan appear to be adequately funded at this time to meet the needs of the future. Most funds are well managed.** Several funds are already fully funded. The booming stock market of the 1990s has provided exceptional returns for investors, including pension funds. Timely changes to state statutes that govern investment options for state and local public retirement funds have allowed these plans to participate in the stock market expansion.

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- **Participants and public often have little insight or understanding about government retirement systems.** The public, government employees and in some cases, public officials charged with oversight of retirement systems are often uninformed about how government retirement systems work. That can lead to inappropriate decisions by pension policymakers, and employees who do not take full advantage of programs at their disposal. Major recommendations in this report call for increased efforts to improve public disclosure and understanding, with a confidence that an aware public is a more effective way to ensure proper funding and operation of retirement systems than additional state-level regulations.

One of our major recommendations is the creation and publication of an easy-to-understand retirement plan “report card,” to increase the public’s ability to obtain useful information. We also suggest additional steps to educate employees and pension fund board members, given the increasing complexity of investment opportunities.

- **The state should increase penalties for governments that fail to meet their responsibilities.** Governmental units that fail to provide funding needed to meet obligations should expect to face financial penalties, including the withholding of state revenue sharing funds. Michigan’s State Constitution guarantees that retiree pension benefits be paid, meaning state taxpayers may be forced to bail out local governments if local retirement systems fail. The commission felt strongly that local officials and local taxpayers should be responsible for local pension systems.
- **The state should take steps to prevent possible abuses.** With rare exception, local governments should continue to make decisions that impact their own pension funds. But given the state’s potential liability for shortfalls in local pension funding, it is in the interest of all taxpayers to set parameters for those decisions, including a process for determining appropriate contributions to a fund and basic ethical standards.
- **Post-retirement health care benefit issues need further examination.** The rising cost of health care for retirees, combined with the general practice of funding these benefits on a “pay as you go” basis, is a combination that could lead to serious problems in the years to come. This matter is extremely complex. We feel that it is worthy of further consideration by another group.

During our public hearings, we received input from dozens of employer groups, employee groups, unions, actuaries, pension consultants, state legislators and many others. We were disappointed that some key consultants and lawmakers declined an opportunity to offer their expertise. But commissioners said they were confident that those who did testify provided a full and complete picture of our state’s public employee retirement systems. A listing of those who contributed has been included at the end of this report.

Governor Engler, we thank you for this opportunity, the members of the Commission for their time, wisdom and patience, and the many who gave us their assistance for their valuable insights and opinions. We would like to single out the contributions of state employee union representatives, for clearly stating their concerns about certain policies — and for accepting the chairperson’s word that the commission’s goal was to protect the interests of workers. We are confident this report is proof that commitment was met.

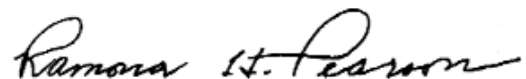
The commission recommendations included in this report, if implemented, will make Michigan’s public sector employees’ retirements more safe and secure while at the same time protecting the interests of taxpayers.



**Ambassador Peter F. Secchia**

*Chairperson*

*Michigan Commission on Public Pension  
and Retiree Health Benefits*



**Ramona Henderson Pearson**

*Vice Chairperson*

*Michigan Commission on Public Pension  
and Retiree Health Benefits*



**STATE OF MICHIGAN**  
OFFICE OF THE GOVERNOR

**JOHN ENGLER**  
GOVERNOR

**EXECUTIVE ORDER**  
**No. 1999 - 13**

**MICHIGAN COMMISSION ON PUBLIC PENSION AND RETIREE HEALTH BENEFITS**

WHEREAS, Article IX, Section 24 of the Constitution of the state of Michigan of 1963 provides that the accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby; and further provides that financial benefits arising on account of services rendered in each fiscal year shall be funded during that year and that such funds are not to be used for financing unfunded accrued liabilities; and

WHEREAS, the funding, management, oversight, and fiscal integrity of public pension and retirement systems is a matter of paramount public importance which bears directly upon the fiscal integrity of the state and its political subdivisions; and

WHEREAS, it is an appropriate time to assemble a group of Michigan citizens who have demonstrated particular knowledge of and interest in public pension and retirement systems for the purpose of conducting a comprehensive review of relevant practices and issues.

NOW, THEREFORE, I, John Engler, Governor of the state of Michigan, pursuant to the powers vested in me by the Constitution of the state of Michigan of 1963 and the laws of the state of Michigan, do hereby establish the Michigan Commission on Public Pension and Retiree Health Benefits.

The Commission is charged with the following responsibilities:

1. Review those state laws that govern or affect the funding, management, oversight, and fiscal integrity of public pension and retirement systems.
2. Review the adequacy of funding for public pension and retirement systems and the extent of unfunded accrued liabilities.
3. Consider, recommend and report such modifications in state laws governing or affecting public pension and retirement systems as the Commission shall think appropriate in the circumstances.

The Commission shall consist of nine members who shall be appointed by, and serve at the pleasure of, the Governor. The Governor shall appoint one member of the Commission as Chairperson. Members of the Commission shall serve during the existence of the Commission, which shall complete its work not later than one year after the Commission is appointed.

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The Commission shall be staffed by personnel within the Department of Treasury, to be designated by the State Treasurer.

All principal departments and other state agencies shall cooperate with the Commission in the performance of its responsibilities. The Commission may request, and principal departments and other state agencies shall provide, such policy and technical information as is required by the Commission in the discharge of its responsibilities.

The Commission may hire or retain such contractors, sub-contractors, advisors, consultants and agents, and may make and enter into contracts necessary or incidental to the exercise of the powers of and the performance of its duties as the State Treasurer may deem advisable and necessary, in accordance with the relevant statutes, rules and procedures of the Civil Service Commission and the Department of Management and Budget.

Members of the Commission shall not receive compensation, but members may receive necessary expenses for the performance of Commission functions, based on existing state rates.

Executive Order 1999-8 is hereby rescinded.

The provisions of this Executive Order shall become effective upon filing.

*Given under my hand and the Great Seal of the  
state of Michigan this 16th day of November, in  
the Year of our Lord, One Thousand Nine  
Hundred Ninety-Nine.*



GOVERNOR

BY THE GOVERNOR

SECRETARY OF STATE

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# How can the state improve general awareness of public employee retirement systems issues?

Public employee retirement systems remain a mystery to many taxpayers, elected officials and employees who are affected by them. The lack of easy-to-find, easy-to-understand information hinders good decision-making by participants, policymakers and voters.

## Background

The confusion, lack of information, and, in some cases, misinformation about public employee retirement systems in Michigan can hardly be overstated. A vast array of local governmental units — counties, cities, villages, townships, county road commissions, library boards and others — provide some sort of retirement benefits to their employees. The benefits offered include pension, health care and savings packages. In testimony, it became apparent that no person or government agency collects information to make it possible to determine the

continued ability of local governmental units to provide those benefits when they are due.

Several entities today gather some information in certain areas. Several unions help gather information for members and provide valuable watchdog services. Accounting firms involved in overseeing benefits collect information from many of their clients to share with their clients and the public. But despite efforts of groups such as these, important gaps in financial data still remain.

## Recommendations

***The state should develop a comprehensive report card on governmental retirement plans.***

Michigan needs a readily available, easy-to-read report card on the ability of governments to fund promised retirement benefits. To create this “Pension Responsibility Report Card,” each local government unit that provides a retirement plan should be required to provide the Michigan Department of Treasury with certain information regarding the financial status of their retirement plan.

The Treasury Department should consolidate this data and publish both detailed and summary information that would be available to all, in print and on the Internet. (See Appendix A for a sample of what the report and web site might look like for pension benefits; Appendix B provides the same information for health benefits.)

The report card will allow interested participants, policymakers and voters to easily understand the financial security being provided by similar units of government. It will help show whether governments are meeting the funding requirements needed to provide benefits. The new form provided to local governments by the Treasury to capture this data should replace existing mandated forms, requiring no additional information.

***The Legislature should provide the state Treasurer with the ability to withhold revenue sharing or other funds to those units that fail to provide information for the report card.*** To ensure all units of government provide information on their retirement systems, the Treasurer should have the ability to withhold revenue sharing or other state funds from local units that do not report information for the retirement system report card.

***“Government is too big and too important to be left to the politicians.”***

— Chester Bowles



# Should the “required employer contribution” be better defined?

Retirement systems ideally establish and receive contributions that remain approximately the same from year to year. Determining that appropriate contribution — the “required employer contribution” — is a crucial matter. But uncertainty exists as to what constitutes required funding under the Michigan Constitution, who is vested with the authority to make that determination, and how to decide when the funding required for accrued liabilities or benefit increases.

## Background

Employer contributions, employee contributions and the investment income earned on the system's assets generally support retirement benefits. The local governmental unit provides an actuarially determined contribution amount, often expressed as a percentage of active member payroll, to meet the financial objectives of the system. The employer contribution generally consists of (1) a normal cost (current) obligation, and (2) an unfunded accrued liability or overfunding credit that is amortized, or paid off, over a period of time.


Article 9, Section 24 of the Michigan Constitution of 1963 provides that “financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities.” This requirement recognizes that employers are required to pay the current service of normal cost of pension

benefits each year. Employers also need to finance the cost of new benefits or accrued liabilities each year.

Pensions systems and local governments may disagree over the appropriate amount needed to meet these requirements. Local officials may face conflicts including budgetary constraints, collective bargaining and political posturing that impinges on payments needed to keep their retirement systems adequately funded. Problems develop when the appropriate amount is not put into a system.

Statutory guidelines on the treatment of current service costs and unfunded actuarial accrued liabilities or overfunding would strengthen the financial objectives of public retirement systems and ensure that assets are available for retirees when promised.

## Recommendations



***The Legislature should clarify what is an appropriate required employer contribution and how the contribution should be determined.*** The funding requirements to maintain the fiscal integrity of public employee retirement systems in Michigan should be clarified by statute consistent with Article 9, Section 24 of the Constitution. The state should also define a procedure to determine that amount.

The commission believes that the board members of a retirement system, acting upon the recommendation of the retirement system's actuary, are in the best position to establish the actuarial assumptions and funding requirements. It is recommended that the employer be required by law to make the required contributions contained in the retirement system's annual actuarial valuation.

The employer's required contribution should be based upon a mathematical budgeting procedure established by the retirement system's governing board for allocating the dollar amount of the “actuarial present value of future plan benefits” between the normal cost to be paid in the future and the actuarial accrued liability, if any (“actuarial funding method”).

continued

## Recommendations

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Contributions should be computed using methods and assumptions that are in accordance with standards of practice promulgated by the Actuarial Standards Board of the American Academy of Actuaries. The annual contribution should consist of a normal cost payment and a minimum of interest on unfunded actuarial liability. The normal cost payment may be offset by a credit for amortization of accrued assets, if any, in excess of actuarial accrued liability.

A clearly worded statute will make it easier for public employee retirement system boards and the Michigan Department of Treasury to see that retirement programs are being properly funded by government agencies.

***“The section is an attempt to rectify, in part, policies which have permitted sizeable deficiencies to pile up in retirement systems in this state. Under this section, accruing liability in each fiscal year must be funded during that year, thus keeping any of these systems from getting farther behind than they are now.”***

***—Constitutional Convention comment regarding  
Article 9 & 24 of the Michigan Constitution of 1963***

# How can the state best enforce retirement system fiscal responsibility?

A handful of governmental units have failed to adequately provide funding for retirement benefits they have promised their workers. It is in the interest of participants and state and local taxpayers to ensure that such promises are kept. But state government has little ability to do so today.


## Background

Despite constitutional mandates requiring governmental units to fund retirement plans, commissioners heard testimony about several local governments that had failed to make appropriate payments into their retirement systems, endangering the fiscal health of those systems and the financial future of workers counting on those benefits. The Municipal Employees Retirement System of Michigan (MERS), a retirement system in which many local governmental units participate, presently cannot compel local governments to make payments needed to fund promised retirement benefits without resorting to court orders. Those court orders often result in extraordinary temporary millages being forced on taxpayers — a back door tax increase imposed without

the consent of the governed. The same can happen when a non-MERS member fails to adequately fund a retirement program. There is also the possibility of the state — in other words, taxpayers across Michigan — being forced to make payments to cover benefits for mismanaged local government plans.

Prior to MERS leaving state government, Treasury could withhold revenue sharing resources from member governments who did not meet their obligations. MERS' corporate counsel, in testimony before the commission, suggested that the state Treasurer should again be given the ability to withhold revenue sharing from MERS members — just as it does now for non-MERS local governments.

## Recommendations

 ***Provide the state Treasurer with the ability to withhold revenue sharing or other funds to any governmental unit that fails to make appropriate payments. The Treasurer should then apply those payments to retirement plan shortfalls.***

The trauma generated by underfunded retirement plans cannot be underestimated. Retirees and current employees are affected greatly. Local taxpayers can find their property tax bills dramatically increased by judicial orders. And state taxpayers can ultimately be left funding the mismanaged local retirement system.

Given that potential impact, it is important the state Treasurer have authority to withhold revenue sharing payments — or other appropriate payments in the case of those units without revenue sharing — from those governments who fail to meet their retirement responsibilities. Those payments should then be made directly to the retirement systems, to make them whole. This will reduce or eliminate the chances of court-ordered millages and instead require fiscal responsibility by governmental units.

***“Apart from the moral responsibility of providing for public employees upon retirement, state officials must be concerned with the financial health of local pension plans, because, in many cases, the responsibility for bailing out an insolvent plan falls on the state.”***

***—Ray Sheppach, Executive Director, National Governors Association***

# Are there adequate remedies to address grossly mismanaged pension funds?

Local pension systems may become so mismanaged that they are in danger of failing to meet obligations. The state has a system to allow it to put in place an emergency financial manager of a city that is mismanaged. Some suggest that the state may need similar authority to take control of a mismanaged pension system.

## Background

The Local Government Fiscal Responsibility Act (PA 72 of 1990) sets forth a series of steps that may be taken by the State Government in the case of a serious financial problem within a city, township, county, authority or school district. The steps include a preliminary review by the state Treasurer or Superintendent of Public Instruction, a review team appointed by the Governor and Legislature and finally, if need be, an emergency financial manager.

A preliminary review may commence if a local unit fails to make the required minimum payment to its pension fund. These reviews are more likely to occur when and if the “required minimum payment” is properly defined (see the commission’s recommendation No. 3). However, PA 72 does not address the situation where the local unit has made all

of the necessary contributions but the trustees of the pension fund have failed to properly manage the fund. Potential problems could include improper loans to the local unit, poor investment performance or failure to make timely payments to beneficiaries.

The Public Employee Retirement System Investment Act (PA 314 of 1965, as amended) spells out the responsibilities of those who direct the investment of public retirement system assets. Any trustee who violates this act may be charged personally with the failure to uphold his or her fiduciary responsibility. However, the Act does not address the question of the pension plan’s management in the case where fiduciary responsibility has been breached, or the plan has been grossly mismanaged.

## Recommendations

***Give the state increased power to address mismanaged retirement systems.***

The Legislature should amend PA 72 to specifically provide that a public pension plan itself may be the subject of a review by the state. Such review should be limited to instances where there has been a violation of fiduciary responsibility or gross mismanagement. Moreover, the state Treasurer, through the attorney general’s office, should be given express authority to assert claims against plan trustees on behalf of its participants and beneficiaries.

***“While the road to better fiscal management may seem long and politically perilous, allowing fiscal and management problems inherent in the public pension system to fester will result in even more costly and difficult decisions to be imposed down the road.”***

***—Ray Sheppach, Executive Director, National Governors Association***

# What can be done to better inform local government officials and taxpayers of the long-term costs of benefit increases?

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**B**enefits given to governmental employees today by elected officials often mean significant financial outlays for future taxpayers. It is important for everyone — plan participants, officials and the public — to be aware of the price of those benefits, over both the short and long run, prior to granting such benefits.

## Background

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Elected government officials are concerned about the future financial needs of their employees, striving to create retirement benefits that will allow present employees to have comfortable retirements. Benefits are usually created or increased during times of good economic growth. Benefits are sometimes given instead of wage increases because the cost is a delayed, future expense. Often there seems to be little

thought given to how the government will generate the funds to pay for new or expanded benefits in the years after they were granted. Officials who find it easy to vote for increased benefits should also be made aware of the need for higher tax revenues to cover those improved benefits. Adequate consideration and analysis of the cost of benefit increases will help protect taxpayers well into the future.

## Recommendations

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### ***Mandatory evaluation of long-term impact of increased benefit costs.***

Before any pension benefit is increased, new benefit granted, or change made that may result in a cost increase to the plan, a supplemental actuarial evaluation must be completed and given to the appropriate elected and appointed government officials before such change becomes effective.

### ***Informing the public of increased benefit costs.***

Before government officials vote on a change in a pension plan, the supplemental actuarial evaluation should be made available to the governmental officials and public for at least 30 days.

***“Underfunding of state and local plans implies that the cost of government has been partially shifted from one generation of taxpayers to another.”***

—U.S. General Accounting Office  
*Public Pensions: State and Local Government  
Contributions to Underfunded Plans March 1996*

# Should benefit increases be funded through lump-sum payments?

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**B**enefit increases usually result in a new liability being added to a retirement system. The best way to resolve this liability is a matter of some discussion, with certain experts suggesting a lump-sum payment would be the best way to handle it. Others, however, suggest simply amortizing the new cost over time.

## Background

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As local governments add new benefits, they incur new long-term costs — new liabilities. Currently, the most common way to finance the additional liability is to amortize it over a certain period of years — usually 30 years, the period used to finance other unfunded actuarial accrued liabilities.

One way to remove this liability is to require a large lump-sum payment to the appropriate retirement fund. Doing so would reduce the burden on future local governments, and the officials who decided to provide the benefit would also be responsible for its cost.

Actuaries who appeared before the commission, however, suggested that giving local governments flexibility in handling these new liabilities is appropriate and is not creating difficulties at this time. Government accounting standards provide a 30-year maximum amortization period in most cases and provide local governments with flexibility to amortize such new benefits over the same period used to finance other unfunded liabilities — or shorter periods if appropriate.

## Recommendations

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***Do not burden local governments by mandating lump sum payments for benefit increases.***

Such payments are not necessary to ensure the fiscal integrity of retirement systems, according to actuaries involved with public and private retirement systems. Instead, governments should be encouraged to fund public employee benefit increases by meeting the actuarially appropriate employer contribution requirements.

# How can the state help prevent inappropriate retirement fund “loans” to local governments?

Given the close relationship between pension fund boards and local government officials, there can be a temptation to imprudently make funds available to the local government during time of need — even though such a “loan” is illegal. The existing penalties on boards for allowing such a questionable diversion of funds may not be sufficient to prevent the movement of retirement monies into the hands of the local government.

## Background

When a local government finds itself in a dire financial situation, it may be tempted to look to other revenue sources. A retirement system may be viewed by some as such a source, and the retirement board members may feel a need to help their local government with a direct loan, purchase of bonds, agreement to delay a required contribution or other transaction that may not be proper.

Such creative financial arrangements may violate commonly accepted guidelines for pension trust investments, may result in a lower return for the fund than available in the market, can lower the credit rating of a municipality and are an indication that a pension fund is not operating independently of local government operations and politics.

## Recommendations

### ***Increase penalties for improper use of retirement funds for the benefit of local governments.***

The commission, after review, determined that there is already state law and constitutional provisions that address this matter, but that they do not go far enough. Such actions today can end in the issuance of judgement bonds against municipal taxpayers — penalizing taxpayers for the actions of government officials. New penalties aimed at the real wrongdoers in these schemes — retirement boards and government officials — should be developed by the Legislature and be enforced by the Executive branch.

In addition, the proposed “Pension Responsibility Report Card” will expose such activities, increasing local accountability.

***“The Government Finance Officers Association recommends that Public Employee Retirement Systems (PERS) only invest their assets for the exclusive benefit of plan participants. Further, PERS should avoid investments with concessionary items that are meant to achieve goals other than providing participants with their promised benefits because such investments erode the integrity of the PERS.”***

***—Government Finance Officers Association, Best Practices Manual***

# Should the state regulate local elected official retirement benefits?

The news media have unearthed a number of questionable practices in how some local governments have provided retirement benefits to part-time elected officials. Other practices that have resulted in increased retirement benefits to select members or beneficiaries have also come under fire in the press.

## Background

Elected local government officials are able to help negotiate and then approve their own pension benefits — even if they are part-time officials. In some cases, that has led to concerns about whether those officials are acting in the public interest or are taking advantage of self-created loopholes in local retirement systems. A lengthy newspaper investigation into retirement benefit practices in the City of Taylor found that the 46-year-old mayor of the city was able to leave the post with an immediate \$48,000 a year pension due to contract provisions he had helped institute. A Detroit Free Press editorial summed up the situation with

the headline, “Practices may be legal, but they violate public trust.” Another practice raising concern is the rolling up of vacation time and overtime into the base pay that pensions are based on, to build up retiree benefits sometimes higher than the pay earned during employment.

Some have suggested that the state should impose reasonable limitations on communities or local pension funds so as to prevent the local governments from implementing inequitable practices, such as providing pension plans for part-time elected officials.

## Recommendations

***Retirement benefits for local elected officials and local government employees should continue to be a local matter.***

While legitimate concerns have been raised about retirement benefits of some local elected officials, there is already a process for those officials to be held accountable for their actions. Local elections and the approval — or disapproval — of voters are the appropriate venue for addressing issues of whether elected municipal, township or county officials should be receiving some or any retirement benefits. Some elected positions are full-time jobs; others are part-time; others are listed as full-time, but in reality require less “work” time than most full-time private- or public-sector positions.

The political process should ultimately determine the proper level of benefits for elected officials. This implies that there should be increased knowledge by the public of retirement benefits in all areas of government, as proposed by the “Pension Responsibility Report Card.” If there is obvious wrongdoing or illegal activity, the state has the authority to step in. Otherwise, the state should not interfere in these inherently local matters.

***“The argument for providing some type of proportional pension benefits for part-time elected city officials is weak at best. Most municipalities do not provide such compensation for part-time officeholders... (This is) a reminder to all voters to make sure their elected local officials are true overseers and not simply the farm team for benefit-rich city jobs.”***

—The Detroit Free Press



# How can public retirement system board members be encouraged to increase their expertise?

Public employee retirement system governing boards frequently are comprised of participant elected employee representatives, elected or appointed officials and citizen representatives. Most trustees have little, if any, formal education in the area of institutional investing, benefits administration or fiduciary responsibility. While trustees are expected to make well-informed decisions and are held to a high standard of conduct, they may not have the knowledge and support necessary to fulfill their duties.

## Background

Trustees, as fiduciaries, are held to a “prudent trustee” standard with respect to their decisions and administration of retirement systems. A trustee must “discharge his or her duties solely in the interest of the participants and the beneficiaries” and “act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims.” (Section 13 of Public Act 314 of 1965, as amended.) It is essential that trustees obtain the

necessary education to fulfill their fiduciary responsibility. Boards must actively seek information, and trustees should be attending classes, workshops, conferences and seminars to increase their knowledge of pension issues.

Organizations such as the Michigan Association of Public Employee Retirement Systems (MAPERS) already are involved in providing education to participating trustees. Increased use of available educational resources should be promoted for those serving on public employee retirement system boards.

## Recommendations

### *State promotion of trustee education.*

The state should support and endorse an ongoing education program for trustees of public employee retirement systems. While there are inherent difficulties in mandating education (as is required of various licensed professionals), trustees should be advised of the importance of education and the resources available to help them fulfill their duties. The commission suggests one way for the state to accomplish this goal is to provide assistance to MAPERS educational programs and to urge pension board members to utilize MAPERS trustee education services.

### *Boards should develop education policies.*

Governing boards of public employee retirement systems should establish a written policy addressing education of trustees. The education policy would establish the number of hours of continuing instruction per year a trustee should attend to fulfill their responsibility to the retirement system, specify critical areas of study, establish reporting requirements and designate qualified education programs. Such a policy would acknowledge that education is an asset and that investment in education pays great dividends to the success of public employee retirement systems.

### *Local elected officials should monitor trustee education programs.*

It is possible for educational seminars to turn into junkets of questionable value. The costs of seminars and the benefits received should be monitored by appropriate local elected officials.

***“It is not sufficient that a trustee has a pure heart and an empty head.”***

***—Retirement law proverb***

# What can be done to increase participant knowledge of retirement benefits and operations?

With hundreds of thousands of Michigan families enrolled in or eligible for public employee retirement benefits, it is important that they understand how to maximize their benefits. Yet it is apparent that many — especially those in defined contribution plans — are not taking full advantage of options they may have.

## Background

All workers should have a good understanding of their post-employment benefits and what they can do to best secure their financial futures. This is particularly true of defined contribution plans, increasingly offered to government employees, which put critical investment decisions and the associated risks primarily in the hands of employees. This is an important new responsibility for many employees.

Research concludes that many are choosing guaranteed rates of return options, such as bonds and money market funds, over more variable rate vehicles, such as stocks. As a result, the rates of return these employees

are earning may be insufficient to accumulate the “nest egg” they will need for retirement. Many workers appear to have an incomplete understanding of the relationships between rates of return, inflation, risks and the retirement income they will need. This may cause some employees to eventually seek recourses that could result in costs to local governments or the state.

Testimony before the commission indicates that those in defined benefit plans may also have a lack of knowledge about the benefits they may enjoy, how to increase those benefits during their work life and exactly when those benefits are available to them.

## Recommendations

### *Increase education about investment decisions.*

The state should encourage plan sponsors to educate employees enrolled in defined contribution plans. Employees need to know the interrelationships between investment goals (amount of retirement income required), rates of return and investment choices. They should understand the importance of diversification. To measure the success of education programs, the plan should maintain auditable records of employee knowledge and understanding of these issues.

### *Require a minimum number of portfolio models.*

Plan sponsors should be required to offer a minimum number of “model” portfolios for participants to select from that will ensure the participants can reach their reasonable retirement goals. Plan sponsors must attempt to bridge the gap between participants’ propensities to select “safe” (risk averse) models which do not provide reasonable opportunity in meeting the participants retirement income needs, and “appropriate” models. Models should range from the least aggressive to those that are more aggressive.

### *Increase education about plan benefits generally.*

Governmental units should regularly provide employees with opportunities to meet experts who can explain benefits, how to utilize them and other details of retirement plans, and answer questions employees may have.

*“Our experience has shown that employees are not comfortable with the risk being in the market represents. Yet history continues to prove that a certain amount of money should be invested in equities as the most stable means of beating inflation and growing money in the long run.”*

—Laura J. Hess  
Senior Consultant, United Auto Workers Social Security Department

# Should the County Pension Plan Committee be eliminated?

State law now calls for a County Pension Plan Committee, consisting of the Attorney General, state Treasurer and Executive Secretary of the State Employees' Retirement System. This committee has little purpose today, and its actions are, for the most part, a formality.

## Background

A 1943 provision of the "County Pension Plan Act" (Section 12a of Public Act 156 of 1851 as amended) calls for a state level committee to approve plans established by counties to pay pension and retirement benefits. These approvals are limited to considering whether the pension plans and changes proposed by them conform to the narrow provisions of the County Pension Plan Act, which requires a single page

actuarial summary and cost estimate for each estimate or revision submitted to the committee. The committee, which meets on a quarterly basis, also gives formal approval to the extension of benefits granted to represented collective bargaining groups to unrepresented county employees. There is general agreement that a County Pension Plan Committee is an unneeded layer of government.

## Recommendations

### *Eliminate the County Pension Plan Committee.*

The County Pension Plan Committee's decisions are merely a formality. Local units of government are increasingly sophisticated when it comes to ensuring pension plans conform to state law and in managing those plans. Bottom line: There is no reason for the County Pension Plan Committee to exist. The Legislature should consider eliminating this redundant level of government.

*"In the last three calendar years, the Committee has reviewed 49 amendments and revisions. There were a handful of proposals judged to be not in conformance with the Act, which were either modified or withdrawn before the formal Committee meeting."*

*—Chris DeRose, Director, State Office of Retirement Services*

# How should governments plan for long-term retiree health care benefits?

Many local governments provide medical plans for their retirees, mostly on a “pay-as-you-go” basis. These plans were originally established for a relative handful of retirees when benefit utilization and retiree life expectancies were low and costs were under control. But today, increasing costs, higher utilization and longer life expectancies are driving the cost of these plans well over initial calculations. The result: It is becoming more difficult for governments to fund past promises about retiree health care.

## Background

Health care benefits for retirees have become an important tool for many local governments to attract and retain employees. Employee bargaining units pressed hard for these benefits in the second half of the 20th Century. With relatively low medical costs and expectations of payouts, local units generally opted to cover health care benefits with general fund dollars on a pay-as-you-go basis, rather than setting up a restricted group of assets for retirement benefits as they do with pension payments. But today's health care environment is much different, and retiree benefits are eating up an increasing proportion of tax revenues.

Many local governments that considered earmarking or setting aside monies to pay for anticipated retiree health care coverage were discouraged by state law that

prevented them from investing for this purpose as a long-term investment. Passage of Public Act 149 of 1999 removed that impediment. Now, local units can fund retirement health care benefits using a wider array of investment options and methodologies to accumulate funds, without excessive regulation and requirements.

Accumulating monies to pay for health care benefits provides advantages to both the local unit of government and employees. Investment returns can help offset inflation and health care costs. Employees enjoy greater security knowing there is a pool of resources earmarked for their long-term health care. Pre-funding will also help limit exposure of state taxpayers to defaults, since some legal experts contend state government has an obligation to cover shortages in municipal health-care benefit plans

## Recommendations

### ***Ensure that all trustees and plan participants understand retiree health care benefit programs' liabilities.***

Obligations are being incurred by governments providing retiree health care. Those governments should be required to at least disclose any potential unfunded liabilities. The proposed “Pension Responsibility Report Card” requires local governments to provide the state Treasury Department with information about potential unfunded retiree health care liabilities, which will then be included in the report card. In addition, those governments should be required by the state to disclose this information in their annual financial statements.

### ***State government should lead the way.***

The State of Michigan, through its Michigan Public School Employees Retirement System, is providing a good example for other governments in this area by attempting to set aside monies for retiree health care in House Bills 5723 and 5724 and Senate Bill 1242 introduced in the 1999–2000 legislative session. When a good investment climate or other factors help reduce the state's required contribution to pension funds for which it is responsible, the state is putting the difference into a health care reserve. While this is only a beginning, it is a start toward a very long-term solution to a potentially high-cost program.

### ***Another commission should address this issue.***

Because the charge given the Michigan Commission on Pension and Retiree Health Benefits was quite broad, members felt they were unable to give the question of health care benefits the attention it clearly deserves. The issue of funding retiree health care benefits is an extraordinarily intricate and difficult one to address, worthy of the entire focus of another commission.

***“As the costs of health benefits significantly increase... policymakers are less inclined to appropriate the funds necessary to sustain current levels of benefits for retirees.”***

***—Alvin Whitfield, State Employees Retirees Association***

# Should smaller retirement systems be forced to consolidate?

The efficiencies of larger plans are obvious. Being able to spread administrative costs and the salaries of experts across more employees helps keep management expenses lower. Some states are taking steps aimed at forcing small and medium-sized plans to consolidate or join multi-employer plans.

## Background


In recent years, some states have moved to consolidate local pension plans into statewide plans. It is argued that administrative and investment expenses can be spread over more participants, which may have the effect of increasing the fund's overall return. By combining, smaller plans may also find it more cost effective to hire full-time actuaries and investment managers, often retained by larger plans.

Another potential benefit of either a consolidated or multi-employer plan is that the board making the investment decisions is not tied to one particular local

unit, insulating those decisions from political or social influences and helping ensure investments are made in the best interests of the plan's members.

With that said, the Commission heard from many self-managed plans that have done extremely well, are fully funded and believe that they have benefited from the flexibility of being able to manage their own pension plan. Some were also concerned that, while it is easy to enter a multi-employer plan, it can be very difficult to exit.

## Recommendations



*Let local units of government continue to make informed decisions about combining funds or going it alone.* Local units should have the option to join multi-employer plans, consolidate with other plans or maintain an independent local plan. The state should simply make the decision makers associated with these plans aware of the various options, and the benefits of each.

*"Consolidated larger plans have several advantages over smaller plans in many respects. Administration of larger plans is usually performed by a retirement board that is established in law, while smaller plans may be administered part-time by local officials without any professional expertise in the pension area. ... Finally, demographic changes in smaller plans, where the ratio of active members to retirees is declining, may make financing future benefits prohibitive."*

*—Ray Sheppach, Executive Director, National Governor's Association*

# Appendix A

## State of Michigan

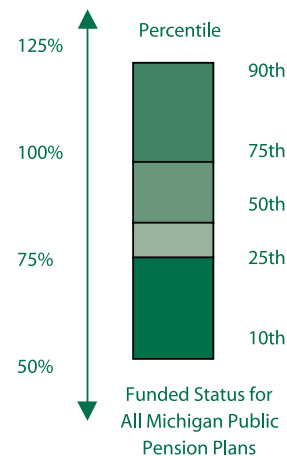
### Annual Pension Plan Financial Report Card for 2000

#### Financial Status

#### Section I: Financial Status for All Michigan Public Pension Plans

One measure of the financial security of a retirement plan is a comparison of the plan's assets with its obligations. The plan's contribution policy is intended to maintain a fully funded plan. Due to the impact of several factors such as plan improvements, investment returns that are below expected levels or salary that increase faster than anticipated, the plan's funded status may fall below 100%. On the other hand, favorable investment experience could result in an overfunded plan. In both cases, however, the plan's long-term goal is to have its assets equal its obligations.

The average funded status for all 2,500 public pension plans within the state of Michigan for 2000 is 85%. This means there is sufficient assets to cover 85% of all plans obligations. Approximately 25% of the plan are funded in excess of 100% while only 10% of plans have assets less than 50% of their plan assets. Just because a plan is less than 100% funded does not mean the plan is in financial jeopardy. Plan sponsors need to carefully manage their tax revenue to properly fund all the needs of the community including the appropriate funding of their benefit commitment.



#### Section II: Funded Status (all \$ in thousands)

The following chart lists the funded status for all 2,500 public pension plans sponsored within Michigan. The plans are listed in alphabetical order and indicate the funded status in terms of (a) percentage (assets divided by obligations), (b) surplus / unfunded (assets less obligation) and (c) as surplus / unfunded as percent of pay.

The first approach — percentage — indicates how much assets are available to secure current benefit obligations. For example, a 85% funded status means their are \$85 of assets for every \$100 of obligations. A 100% funded status indicates the plan is fully funded. The second approach — Surplus / Unfunded — indicates the amount of any surplus or unfunded. A positive number indicates the plan is currently overfunded. A negative number shows the amount of any unfunded obligation. The third approach — percent of pay — shows what portion of current payroll would be needed to fully fund the plan. A value of -50% indicates the half of current payroll would be needed to fully fund the current plan.

Please be careful when reviewing the values. Plans which cover substantial number of employees may be well funded by also have a large unfunded obligation simply due to their size. Similarly poorly funded plans may have small amounts of "shortfall" assets if the plan is small.

Plan Name	( a )		( b )		( c )	
	Funded Percentage		Surplus / (Unfunded)		Surplus / (Unfunded) as Percent of Pay	
	Percent	Ranking	Amount	Ranking	Amount	Ranking
AAA Plan	133.3%	45	\$ 25	1,500	6%	800
BBB Plan	80.0%	1,000	(10,000)	1,700	-83%	1,900
CCC Plan	108.7%	500	10,000	1,200	21%	700
YYY Plan	117.6%	450	1,500	1,400	38%	600
XXX Plan	133.3%	44	100,000	900	83%	500
ZZZ Plan	142.9%	25	150,000	500	125%	400

## XYZ County Pension Plan

### Annual Financial Report Card for 2000

#### Section I: Funded Status

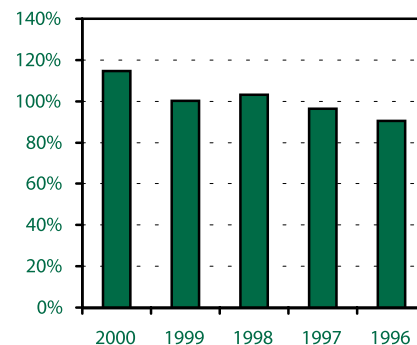
One measure of the financial security of a retirement plan is a comparison of the plan's assets with its obligations. The plan's contribution policy is intended to maintain a fully funded plan. Due to the impact of several factors such as plan improvements, investment returns that are below expected levels or salary that increase faster than anticipated, the plan's funded status may fall below 100%. On the other hand, favorable investment experience could result in an overfunded plan. In both cases, however, the plan's long-term goal is to have its assets equal its obligations.

As of January 1, 2000, the plan has achieved its fully funded objectives. The plan's assets total \$1.3 billion which exceeds its obligations of \$1.1 billion by \$167 million. As a percentage, the plan is 114.8% funded (for every \$100 of obligation the plan has \$114.8 of assets).

#### Comments from the Plan Sponsor:

Over the last five years, the plan's funded status has steadily improved due primarily to favorable investment experience. We anticipate the funded status to continue to dip downward and hover around 100% for the foreseeable future.

Funded Status



#### Section II: Contributions (all \$ in thousands)

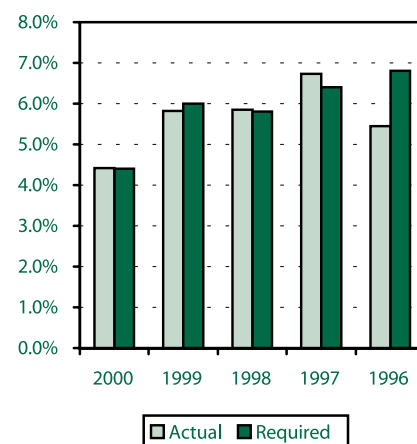
#### Comments from the Plan Sponsor:

The plan's funding policy is to contribute annually an amount which equals the value of the benefits earned during the year and a portion of any unfunded obligation. If the plan is less than 100% funded, the annual contribution equals the value of the benefits earned that year plus a payment to amortize the unfunded obligation as a level percent of pay over 20 years. If the plan is over 100% funded, the annual contribution equals the value of the benefits earned that year less a credit equal to 20 year amortization of the surplus as a level percent of payroll.

For fiscal 2000, the employer contributed 4.4% of pay (\$24 million) to the trust. For 2000, the value of benefits earned during the year totaled 5.0% of pay. The 2000 contribution was reduced by -0.6% due to the plan's overfunded situation. The steadily decreasing contribution pattern represents the improved funded status of the plan. We anticipate contribution levels to increase up to 5% of pay as the overfunded position becomes exhausted. In addition to the employer's contribution, employee's contribute 5% of pay, or \$27 million for 2000.

The employer contribution has differed over the years from the level required from our funding policy due primarily to the construction in 1996 of a new water treatment plant. Unless a major need for cash arises to improve the conditions of our city, we anticipate future contribution to equal the level required from our funding policy.

Employer Contribution as % Pay



## XYZ County Pension Plan

### Annual Financial Report Card for 2000

#### Section III: Plan Assets

In order to minimize fluctuations in contributions and funded status due to sudden changes in investment performance, the plan sponsor smoothes investment performance over a period of 5 years. These assets — Actuarial Value of Assets — are used to determine the annual contribution level and funded status. The assets valued at fair value — Net Plan Assets — could be higher or lower than these assets based on plan investment experience. The following table summarizes the asset levels over the last 5 years.

The assets are generally invested in high quality securities intended to balance the level of risk with the expected level of return. Equities represent approximately 60% of the portfolio, bonds 25% with the balance allocated between other types of securities.

	2000	1999	1998	1997	1996
<b>Assets</b>					
■ Net Assets (Fair Value)	\$ 1,558,073	\$ 1,370,320	\$ 1,250,205	\$ 1,223,178	\$ 1,072,100
■ Actuarial Value (Smoothed)	1,294,000	1,193,000	1,107,000	994,000	900,000
<b>Investment Performance</b>					
■ Net Assets (Fair Value)	14.0%	9.2%	2.0%	14.0%	12.0%
■ Actuarial Value (Smoothed)	8.8%	8.0%	7.5%	10.5%	10.0%
<b>Change in Net Assets</b>					
■ Prior Year Value	\$ 1,370,320	\$ 1,250,205	\$ 1,223,178	\$ 1,067,277	\$ 950,000
■ Additions					
◆ Contributions					
● Employer	\$ 24,000	\$ 31,600	\$ 29,800	\$ 33,600	\$ 26,700
● Employee	27,200	27,156	25,460	24,975	24,500
● Subtotal	\$ 51,200	\$ 58,756	\$ 55,260	\$ 58,575	\$ 51,200
◆ Net Investment Income	188,228	112,659	23,942	146,011	111,287
◆ Other	-	-	-	-	-
■ Reductions					
◆ Benefit Payments & Refund					
Employee Contributions	51,500	51,000	52,000	48,500	45,000
◆ Administrative Expenses	175	300	175	185	210
◆ Total Reductions	51,675	51,300	52,175	48,685	45,210
■ Current Year Value	\$ 1,558,073	\$ 1,370,320	\$ 1,250,205	\$ 1,223,178	\$ 1,067,277



## XYZ County Pension Plan Annual Financial Report Card for 2000

### Section IV: Financial Highlights (All \$ in thousands)

The following table indicates selected financial highlights.

	2000	1999	1998	1997	1996
<b>Number of Participants</b>					
■ Employees	13,600	13,750	13,400	13,500	14,000
■ Retirees	6,700	6,550	6,350	6,000	5,500
<b>Funded Status</b>					
■ Assets (Actuarial Value)	\$ 1,294,000	\$ 1,193,000	\$ 1,107,000	\$ 994,000	\$ 900,000
■ Obligations	1,127,200	1,190,800	1,073,300	1,030,300	994,200
■ Funded Percentage	114.8%	100.2%	103.1%	96.5%	90.5%
■ Surplus / (Unfunded)	\$ 166,800	\$ 2,200	\$ 33,700	\$ (36,300)	\$ (94,200)
■ Benefits Paid	51,500	51,000	50,000	47,500	45,000
<b>Contribution</b>					
■ Employee					
◆ As % of Pay (Weighted Avg)	5.0%	5.0%	5.0%	5.0%	5.0%
◆ Amount	\$ 27,200	\$ 27,156	\$ 25,460	\$ 24,975	\$ 24,500
■ Employer					
◆ As % of Pay	4.4%	5.8%	5.9%	6.7%	5.4%
◆ Amount	\$ 24,000	\$ 31,600	\$ 29,800	\$ 33,600	\$ 26,700
◆ As % of Required Level per Funding Policy	100%	97%	101%	105%	80%

# Appendix A

## State of Michigan

### Annual Financial Disclosure Report for Public Pension and Retiree Health Benefits Proposed Framework

#### Section I: Basic Information

■ Benefit Type	<input checked="" type="radio"/> Defined Benefit/Hybrid	<input type="radio"/> Defined Contribution	<input type="radio"/> Retiree Welfare	Defined Benefit
■ Plan Name	XYZ County Pension Plan			
■ Plan Administrator	Ms. Jane Doe			
■ Administrator Phone Number	517-111-1111			
■ Administrator Mailing Address	1234 Main Street Lansing, Michigan 48111			
■ Authority Under Which Plan May be Amended (Charter or Ordinance)	Charter			
■ Valuation Date (Month Day)	January 1			
■ Member of MERS?	No			
■ Investment Advisors	ABC Investment Advisors			
■ Participant Description - Check all that apply:				
<input checked="" type="checkbox"/> General Employees	<input checked="" type="checkbox"/> Police Officers	<input type="checkbox"/> Fire Fighters	<input checked="" type="checkbox"/> Judicial	<input type="checkbox"/> Other, Describe
■ Are you an Act 345 System (If Police and/or Fire Fighters)	No			
■ Are there outstanding loans between the trust and the plan sponsor?	No			
■ Are assets currently set aside in a trust to provide benefits?	Yes			
■ Has the plan's obligations been measured?	Yes			
■ Have the plan's contributions requirements and disclosure information been completed on time?	Yes			

#### Section II: Participant Information

Enter the following information for each of the last five years. Average pay should reflect the pay used for benefit calculation purposes.

	2000	1999	1998	1997	1996
Employees					
■ Number	13,600	13,750	13,400	13,500	14,000
■ Average age	45.2	44.6	44.7	44.5	44
■ Average service	15.4	15.3	15.1	14.9	15
■ Average pay	\$ 40,000	\$ 39,500	\$ 38,000	\$ 37,000	\$ 35,000
Retirees / Beneficiaries					
■ Number	5,150	5,100	5,000	4,750	4,500
■ Average age	70.0	69.8	69.5	69	68.5
Deferred					
■ Number	1,550	1,450	1,350	1,250	1,000
■ Average age	52.4	52.3	51.2	51.0	50.0

# Appendix A

## State of Michigan

### Annual Financial Disclosure Report for Public Pension and Retiree Health Benefits

#### Proposed Framework

Section III: Schedule of Funding Progress as Required under GASB 25:		Enter all \$ in thousands				
Enter the following information for each of the last five years for defined benefit and retiree welfare plans. Obligation cost method should be either "Entry Age", "Frozen Entry Age", "Attained Age", "Frozen Attained Age", "Projected Unit Credit", or "Aggregate". For method to determine "smoothed value of assets", indicate the smoothing period in years (zero would indicate no smoothing).						
	2000	1999	1998	1997	1996	
Actuarial Accrued Liability (Obligation)						
■ Employees	\$ 607,800	\$ 659,000	\$ 553,000	\$ 536,500	\$ 529,200	
■ Retirees / Beneficiaries	499,600	510,000	500,000	475,000	450,000	
■ Deferred	19,800	21,800	20,300	18,800	15,000	
■ Total	\$ 1,127,200	\$ 1,190,800	\$ 1,073,300	\$ 1,030,300	\$ 994,200	
■ Obligation due to plan change effective during year	-	63,000	-	-	-	
Asset Value (Actuarial Value)	\$ 1,294,000	\$ 1,193,000	\$ 1,107,000	\$ 994,000	\$ 900,000	
Covered Payroll	\$ 544,000	\$ 543,125	\$ 509,200	\$ 499,500	\$ 490,000	
Funded Status						
■ Surplus / (Unfunded)						
◆ Amount	\$ 166,800	\$ 2,200	\$ 33,700	\$ (36,300)	\$ (94,200)	
◆ As % of Payroll	30.7%	0.4%	6.6%	-7.3%	-19.2%	
■ Funded Percentage	114.8%	100.2%	103.1%	96.5%	90.5%	
■ Please explain any sudden volatility in funded status from the prior year	Normal operation of plan	Normal operation of plan	Normal operation of plan	Normal operation of plan	Normal operation of plan	
Actuarial Cost Method						
■ Obligations	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	
■ Assets (smoothing period in years)	5	5	5	5	5	
■ Report Card Comments for Current Year	Please indicate why the funded status changed from the prior year and future expectations. This language will be used word for word in the annual report card and hence should be written to permit the public to easily understand it.					
Over the last five years, the plans funded status has steadily improved due primarily to favorable investment experience. We anticipate the funded status to continue to dip downward and hover around 100% for the foreseeable future.						

## State of Michigan

### Annual Financial Disclosure Report for Public Pension and Retiree Health Benefits Proposed Framework

Section IV: Schedule of Employer Contributions as Required under GASB 25: Enter all \$ in thousands					
	2000	1999	1998	1997	1996
<b>Comparison Values</b>					
■ Covered Payroll	\$ 544,000	\$ 543,125	\$ 509,200	\$ 499,500	\$ 490,000
<b>Annual Required Contribution</b>					
■ Normal Cost	5.0%	6.0%	6.3%	5.4%	5.4%
■ Amortization	-0.6%	0.0%	-0.5%	1.0%	1.4%
■ Total Employer	4.4%	6.0%	5.8%	6.4%	6.8%
■ Avg Amortization Period (Years)	26.0	27.0	23.0	24.0	25.0
■ Amortization Method (\$ or % pay)	Level Dollar	Level Dollar	Level Dollar	Level Dollar	Level Dollar
<b>Actual Contribution</b>					
■ Employer					
◆ Percent of Payroll	4.4%	5.8%	5.9%	6.7%	5.4%
◆ Amount	\$ 24,000	\$ 31,600	\$ 29,800	\$ 33,600	\$ 26,700
◆ Percent of Annual Required	100%	97%	101%	105%	80%
■ Employee					
◆ Percent of Pay	5.0%	5.0%	5.0%	5.0%	5.0%
◆ Amount	\$ 27,200	\$ 27,156	\$ 25,460	\$ 24,975	\$ 24,500
■ Funding Policy: Normal Cost plus Amortization of Surplus or Unfunded over:					
◆ Period (Years)	20	20	23	24	25
◆ Approach	Open	Open	Decreasing	Decreasing	Decreasing
■ Please explain any sudden volatility in contribution pattern and why actual contribution varies from annual required contribution.	Normal operation of plan	Plan Change for Active Employees; Funding policy changed	Normal operation of plan	Additional contribution to make up for prior year contribution of 80% of annual required contribution.	Contribution below annual required contribution due to lower than expected tax revenues.
<b>Report Card Comments for Current Year</b> Please indicate (a) the funding policy, (b) amount of most recent employer and employee contribution including projected future contribution levels and (c) why actual contribution varied from annual required levels. This language will be used word for word in the annual report card and hence should be written to permit the public to easily understand it.					
The plan's funding policy is to contribute annually an amount which equals the value of the benefits earned during the year and a portion of any unfunded obligation. If the plan is less than 100% funded, the annual contribution equals the value of the benefits earned that year plus a payment to amortize the unfunded obligation as a level percent of pay over 20 years. If the plan is over 100% funded, the annual contribution equals the value of the benefits earned that year less a credit equal to 20 year amortization of the surplus as a level percent of payroll.					
For fiscal 2000, the employer contributed 4.4% of pay (\$24 million) to the trust. For 2000, the value of benefits earned during the year totaled 5.0% of pay. The 2000 contribution was reduced by -0.6% due to the plan's overfunded situation. The steadily decreasing contribution pattern represents the improved funded status of the plan. We anticipate contribution levels to increase up to 5% of pay as the overfunded position becomes exhausted. In addition to the employer's contribution, employee's contribute 5% of pay, or \$27 million for 2000.					
The employer contribution has differed over the years from the level required from our funding policy due primarily to the construction in 1996 of a new water treatment plant. Unless a major need for cash arises to improve the conditions of our city, we anticipate future contribution to equal the level required from our funding policy.					

## State of Michigan

### Annual Financial Disclosure Report for Public Pension and Retiree Health Benefits

#### Proposed Framework

Section V: Statement of Plan Net Assets as Required under GASB 25:		Enter all \$ in thousands				
Enter the following information for the last four years. The asset portfolio should be reported at the fair value of assets.						
		2000	1999	1998	1997	1996
Asset Portfolio						
■ Cash Equivalents	\$	35,000	\$ 30,000	\$ 28,000	\$ 25,700	\$ 20,050
■ Receivables and Liabilities						
◆ Employer		-	20	15	25	-
◆ Interest and Dividends		225	200	175	150	100
◆ Liabilities		-	(25)	-	-	(50)
◆ Subtotal		225	195	190	175	50
■ Investments at Fair Value						
◆ Bonds						
● US Government Security		110,000	95,000	90,000	85,000	75,000
● Municipal		145,000	135,000	125,000	100,000	75,000
● Corporate		140,000	125,000	115,000	110,000	100,000
● Subtotal		395,000	355,000	330,000	295,000	250,000
◆ Equities						
● Domestic Stocks		847,098	756,525	654,815	685,803	600,000
● International Stocks		75,000	65,000	61,000	55,000	50,000
● Subtotal		922,098	821,525	715,815	740,803	650,000
◆ Mortgages		15,000	10,000	10,000	10,000	10,000
◆ Real Estate		125,000	110,000	110,000	105,000	100,000
◆ Venture Capital		65,000	42,500	55,000	45,000	40,000
◆ Other		750	1,100	1,200	1,500	2,000
■ Plan Net Assets	\$	1,558,073	\$ 1,370,320	\$ 1,250,205	\$ 1,223,178	\$ 1,072,100
Portfolio Allocation						
■ Cash Equivalents		2.2%	2.2%	2.2%	2.1%	1.9%
■ Receivables and Liabilities		0.0%	0.0%	0.0%	0.0%	0.0%
■ Bonds		25.4%	25.9%	26.4%	24.1%	23.3%
■ Equities		59.2%	60.0%	57.3%	60.6%	60.6%
■ Mortgages		1.0%	0.7%	0.8%	0.8%	0.9%
■ Real Estate		8.0%	8.0%	8.8%	8.6%	9.3%
■ Venture Capital		4.2%	3.1%	4.4%	3.7%	3.7%
■ Other		0.0%	0.1%	0.1%	0.1%	0.2%
■ Total		100.0%	100.0%	100.0%	100.0%	100.0%
■ Report Card Comments for Current Year						
Please indicate the general asset portfolio allocation strategy. This language will be used word for word in the annual report card and hence should be written to permit the public to easily understand it.						
The assets are generally invested in high quality securities intended to balance the level of risk with the expected level of return. Equities represent approximately 60% of the portfolio, bonds 25% with the balance allocated between other types of securities.						

# Appendix A

## State of Michigan

### Annual Financial Disclosure Report for Public Pension and Retiree Health Benefits

#### Proposed Framework

Section VI: Statement of Change in Plan Net Assets as Required under GASB 25:		Enter all \$ in thousands			
Enter the following information for the last four years. Plan Net Assets represents change in fair value of assets.					
Change in Plan Net Assets (Fair Value)	2000	1999	1998	1997	1996
■ Prior Year Value	\$ 1,370,320	\$ 1,250,205	\$ 1,223,178	\$ 1,067,277	\$ 950,000
■ Additions					
◆ Contributions					
● Employer	\$ 24,000	\$ 31,600	\$ 29,800	\$ 33,600	\$ 26,700
● Employee	27,200	27,156	25,460	24,975	24,500
● Subtotal	51,200	58,756	55,260	58,575	51,200
◆ Investment Income					
● Net Appreciation	149,859	77,653	(10,307)	116,127	84,687
● Dividends	19,184	17,503	17,124	14,942	13,300
● Interest	32,888	30,005	29,356	25,615	22,800
● Less Investment Expenses	(13,703)	(12,502)	(12,232)	(10,673)	(9,500)
● Total Additions	188,228	112,659	23,942	146,011	111,287
◆ Other	-	-	-	-	-
■ Reductions					
◆ Benefit Payments	51,500	51,000	50,000	47,500	45,000
◆ Refund Employee Contributions	-	-	2,000	1,000	-
◆ Administrative Expenses	175	300	175	185	210
◆ Total Reductions	51,675	51,300	52,175	48,685	45,210
■ Current Year Value	\$ 1,558,073	\$ 1,370,320	\$ 1,250,205	\$ 1,223,178	\$ 1,067,277
Actual Investment Performance					
■ Net Assets (Fair Value)	14.0%	9.2%	2.0%	14.0%	12.0%
■ Actuarial Value	8.8%	8.0%	7.5%	10.5%	10.0%

## State of Michigan

### Annual Financial Disclosure Report for Public Pension and Retiree Health Benefits

#### Proposed Framework

Section VII: Key Assumptions					
Enter the following information for each of the last five years. For defined benefit plans, ignore the medical trend and medical per capita information. If the plan uses salary increase assumptions that vary by age and/or service, enter the single rate which would produce similar obligation and normal cost results.					
Assumptions	2000	1999	1998	1997	1996
■ Investment Return					
◆ Nominal Rate	8.50%	8.00%	8.00%	8.00%	8.00%
◆ Real Rate over Wage Inflation	4.50%	4.00%	4.50%	4.50%	5.00%
■ Salary Rate					
◆ Wage Inflation	4.00%	4.00%	3.50%	3.50%	3.00%
◆ Merit / Promotion (Average)	1.00%	1.00%	1.00%	1.00%	1.00%
◆ Total Salary (Average)	5.00%	5.00%	4.50%	4.50%	4.00%
■ Cost-Of-Living Benefit Increases (Post-Retirement)					
◆ Rate	1.00%	1.00%	1.00%	1.00%	1.00%
◆ Simple or Compound	Compound	Compound	Compound	Compound	Compound
■ Mortality					
◆ Male	GAM83	GAM83	UP84	UP84	UP84
◆ Female	GAM83-5 Yr	GAM83-5 Yr	UP84-5 Yr	UP84-5 Yr	UP84-5 Yr

# Appendix B

## State of Michigan

### Annual Retiree Welfare Plan Financial Report Card for 2000

#### Financial Status

#### Section I: Financial Status for All Michigan Public Retiree Welfare Plans

One measure of the financial security of a retiree welfare plan is a comparison of the plan's assets with its obligations. Most plan sponsors do not advance fund their benefit obligation. Instead, they utilize a pay-as-you-go funding policy which requires the employer to pay the benefits as they occur. A minority of the plans pre-fund their benefit obligation. Of the 2,500 plans reported for fiscal 2000, only 50 prefund their benefit obligations. On average, these 50 plans are only marginally funded with assets covering only 10% of the plan's benefit obligation.

In addition to only a handful of plans pre-funding their obligations, only a small number actuarially measure their benefit obligations. Therefore, neither the state, the plan sponsor or the plan participants fully know the extent of the deficit funding. Regardless of whether prefunding occurs, the state strongly encourages all plan sponsors to measure their obligations.

#### Section II: Funded Status (all \$ in thousands)

The following chart lists the funded status for all 2,500 public retiree welfare plans sponsored within Michigan. The plans are listed in alphabetical order and indicate the funded status in terms of (a) percentage (assets divided by obligations), (b) surplus / unfunded (assets less obligation) and (c) as surplus / unfunded as percent of pay. For the majority of the plans, no actuarially determined benefit obligation is available and hence the extent of their unfunded obligation has not been determined.

The first approach — percentage — indicates how much assets are available to secure current benefit obligations. For example, a 85% funded status means there are \$85 of assets for every \$100 of obligations. A 100% funded status indicates the plan is fully funded. The second approach — Surplus / Unfunded — indicates the amount of any surplus or unfunded. A positive number indicates the plan is currently overfunded. A negative number shows the amount of any unfunded obligation. The third approach — percent of pay — shows what portion of current payroll would be needed to fully fund the plan. A value of -50% indicates the half of current payroll would be needed to fully fund the current plan.

Please be careful when reviewing the values. Plans which cover substantial number of employees may be well funded by also have a large unfunded obligation simply due to their size. Similarly poorly funded plans may have small amounts of "shortfall" assets if the plan is small.

Plan Name	(a)		(b)		(c)	
	Funded Percentage		Surplus / (Unfunded)		Surplus / (Unfunded) as Percent of Pay	
	Percent	Ranking	Amount	Ranking	Amount	Ranking
AAA Plan	N/A	N/A	N/A	N/A	N/A	N/A
BBB Plan	8.0%	1,000	(46,000)	N/A	-383%	N/A
CCC Plan	N/A	N/A	N/A	N/A	N/A	N/A
YYY Plan	11.8%	450	(7,500)	N/A	-188%	N/A
XXX Plan	N/A	N/A	N/A	N/A	N/A	N/A
ZZZ Plan	N/A	N/A	N/A	N/A	N/A	N/A



## XYZ County Retiree Welfare Plan Annual Financial Report Card for 2000

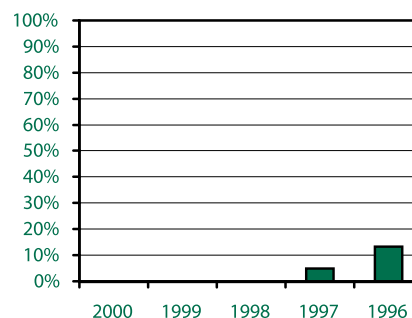
### Section I: Funded Status

One measure of the financial security of a retirement plan is a comparison of the plan's assets with its obligations. Due to the impact of several factors such as plan improvements, investment returns that are below expected levels or medical trend that increase faster than anticipated, the plan's funded status may fall below 100%. On the other hand, favorable investment experience could result in an overfunded plan.

#### Comments from the Plan Sponsor:

The plan has no assets set aside in a trust to pay retiree health care. Instead, the employer makes annual contributions equal to the benefits as they emerge, so called pay-as-you-go funding basis. If the plan were to be funded, we would need to set aside \$835 million to fully fund the plan. In 1996, the plan's funding policy was changed from advance funding to pay-as-you-go. During 1996 and 1997, the plans assets were used to reduce the employer's contribution. At this time, there are no intentions to start pre-funding the retiree welfare benefits.

Funded Status



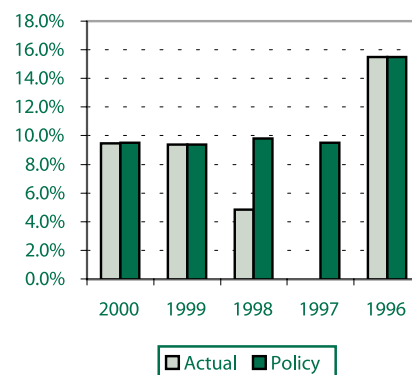
### Section II: Contributions (all \$ in thousands)

#### Comments from the Plan Sponsor:

The plan's funding policy was changed in 1996 from advance funding to a pay-as-you-go basis. The employer's contribution equals the benefits as they occur. No advance funding of the plan's obligation occurs.

For fiscal 2000, the employer contributed 9.5% of pay or \$51.5 million. The uneven contribution pattern for 1996 and 1997 indicates when the funding policy was changed from advance funding to pay-as-you-go. During those years, the employer contribution was reduced by using the available assets in the trust. We anticipate future contribution levels to increase pass 10% of pay as a greater number of employees retire and medical cost continues to escalate.

Employer Contribution as % Pay



## XYZ County Retiree Welfare Plan Annual Financial Report Card for 2000

### Section III: Plan Assets

The following table summarizes the asset levels over the last 5 years.

As of today, the plan has no assets.

	2000	1999	1998	1997	1996
<b>Assets</b>					
■ Net Assets (Fair Value)	\$ -	\$ -	\$ -	\$ 25,472	\$ 67,185
■ Actuarial Value (Smoothed)	-	-	-	25,000	65,000
<b>Investment Performance</b>					
■ Net Assets (Fair Value)	0.0%	0.0%	0.0%	14.0%	12.0%
■ Actuarial Value (Smoothed)	0.0%	0.0%	0.0%	10.5%	10.0%
<b>Change in Net Assets</b>					
■ Prior Year Value	\$ (0)	\$ (0)	\$ 25,472	\$ 67,185	\$ 35,000
■ Additions					
◆ Contributions					
● Employer	\$ 51,500	\$ 51,000	\$ 24,703	\$ -	\$ 75,950
● Employee	-	-	-	-	-
● Subtotal	\$ 51,500	\$ 51,000	\$ 24,703	\$ -	\$ 75,950
◆ Net Investment Income	-	-	-	6,062	1,485
◆ Other	-	-	-	-	-
■ Reductions					
◆ Benefit Payments & Refund Employee Contributions	51,500	51,000	50,000	47,500	45,000
◆ Administrative Expenses	-	-	175	275	250
◆ Total Reductions	51,500	51,000	50,175	47,775	45,250
■ Current Year Value	\$ (0)	\$ (0)	\$ (0)	\$ 25,472	\$ 67,185

## XYZ County Retiree Welfare Plan Annual Financial Report Card for 2000

### Section IV: Financial Highlights (All \$ in thousands)

The following table indicates selected financial highlights.

	2000	1999	1998	1997	1996
<b>Number of Participants</b>					
■ Employees	13,600	13,750	13,400	13,500	14,000
■ Retirees	5,150	5,100	5,000	4,750	4,500
<b>Funded Status</b>					
■ Assets (Actuarial Value)	\$ -	\$ -	\$ -	\$ 25,000	\$ 65,000
■ Obligations	834,500	840,500	820,000	817,500	835,000
■ Funded Percentage	0.0%	0.0%	0.0%	3.1%	7.8%
■ Surplus / (Unfunded)	\$ (834,500)	\$ (840,500)	\$ (820,000)	\$ (792,500)	\$ (770,000)
■ Benefits Paid	51,500	51,000	50,000	47,500	45,000
<b>Contribution</b>					
■ Employee Premium Sharing					
◆ As % of Pay (Weighted Avg)	0.0%	0.0%	0.0%	0.0%	0.0%
◆ Amount	\$ -	\$ -	\$ -	\$ -	\$ -
■ Employer					
◆ As % of Pay	9.5%	9.4%	4.9%	0.0%	15.5%
◆ Amount	\$ 51,500	\$ 51,000	\$ 24,703	\$ -	\$ 75,950
◆ As % of Required Level per Funding Policy	100%	100%	50%	0%	100%

# Appendix B

## State of Michigan

### Annual Financial Disclosure Report for Public Pension and Retiree Health Benefits

#### Proposed Framework

Section I: Basic Information	
<div>Benefit Type</div> <div> <input checked="" type="radio"/> Defined Benefit/Hybrid           <input type="radio"/> Defined Contribution           <input type="radio"/> Retiree Welfare         </div>	Defined Benefit
Plan Name	XYZ County Pension Plan
Plan Administrator	Ms. Jane Doe
Administrator Phone Number	517-111-1111
Administrator Mailing Address	1234 Main Street Lansing, Michigan 48111
Authority Under Which Plan May be Amended (Charter or Ordinance)	Charter
Valuation Date (Month Day)	January 1
Member of MERS?	No
Investment Advisors	ABC Investment Advisors
Participant Description - Check all that apply:	
<input checked="" type="checkbox"/> General Employees <input checked="" type="checkbox"/> Police Officers <input type="checkbox"/> Fire Fighters <input checked="" type="checkbox"/> Judicial <input type="checkbox"/> Other, Describe	
Are you an Act 345 System (If Police and/or Fire Fighters)	No
Are there outstanding loans between the trust and the plan sponsor?	No
Are assets currently set aside in a trust to provide benefits?	Yes
Has the plan's obligations been measured?	Yes
Have the plan's contributions requirements and disclosure information been completed on time?	Yes

Section II: Participant Information					
Enter the following information for each of the last five years. Average pay should reflect the pay used for benefit calculation purposes.					
	2000	1999	1998	1997	1996
Employees					
Number	13,600	13,750	13,400	13,500	14,000
Average age	45.2	44.6	44.7	44.5	44
Average service	15.4	15.3	15.1	14.9	15
Average pay	\$ 40,000	\$ 39,500	\$ 38,000	\$ 37,000	\$ 35,000
Retirees / Beneficiaries					
Number	5,150	5,100	5,000	4,750	4,500
Average age	70.0	69.8	69.5	69	68.5
Deferred					
Number	1,550	1,450	1,350	1,250	1,000
Average age	52.4	52.3	51.2	51.0	50.0

# Appendix B

## State of Michigan

### Annual Financial Disclosure Report for Public Pension and Retiree Health Benefits

#### Proposed Framework

Section III: Schedule of Funding Progress as Required under GASB 25:		Enter all \$ in thousands				
Enter the following information for each of the last five years for defined benefit and retiree welfare plans. Obligation cost method should be either "Entry Age", "Frozen Entry Age", "Attained Age", "Frozen Attained Age", "Projected Unit Credit", or "Aggregate". For method to determine "smoothed value of assets", indicate the smoothing period in years (zero would indicate no smoothing).						
		2000	1999	1998	1997	1996
<b>Actuarial Accrued Liability (Obligation)</b>						
■ Employees	\$	607,800	\$ 659,000	\$ 553,000	\$ 536,500	\$ 529,200
■ Retirees / Beneficiaries		499,600	510,000	500,000	475,000	450,000
■ Deferred		19,800	21,800	20,300	18,800	15,000
■ Total	\$	1,127,200	\$ 1,190,800	\$ 1,073,300	\$ 1,030,300	\$ 994,200
■ Obligation due to plan change effective during year		-	63,000	-	-	-
Asset Value (Actuarial Value)	\$	1,294,000	\$ 1,193,000	\$ 1,107,000	\$ 994,000	\$ 900,000
Covered Payroll	\$	544,000	\$ 543,125	\$ 509,200	\$ 499,500	\$ 490,000
<b>Funded Status</b>						
■ Surplus / (Unfunded)						
◆ Amount	\$	166,800	\$ 2,200	\$ 33,700	\$ (36,300)	\$ (94,200)
◆ As % of Payroll		30.7%	0.4%	6.6%	-7.3%	-19.2%
■ Funded Percentage		114.8%	100.2%	103.1%	96.5%	90.5%
■ Please explain any sudden volatility in funded status from the prior year		Normal operation of plan	Normal operation of plan	Normal operation of plan	Normal operation of plan	Normal operation of plan
<b>Actuarial Cost Method</b>						
■ Obligations		Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
■ Assets (smoothing period in years)		5	5	5	5	5
<b>■ Report Card Comments for Current Year</b> Please indicate why the funded status changed from the prior year and future expectations. This language will be used word for word in the annual report card and hence should be written to permit the public to easily understand it.						
Over the last five years, the plans funded status has steadily improved due primarily to favorable investment experience. We anticipate the funded status to continue to dip downward and hover around 100% for the foreseeable future.						

# Appendix B

## State of Michigan

### Annual Financial Disclosure Report for Public Pension and Retiree Health Benefits

#### Proposed Framework

Section IV: Schedule of Employer Contributions as Required under GASB 25:		Enter all \$ in thousands				
		2000	1999	1998	1997	1996
Comparison Values						
■ Covered Payroll	\$	544,000	\$ 543,125	\$ 509,200	\$ 499,500	\$ 490,000
Annual Required Contribution						
■ Normal Cost		5.0%	6.0%	6.3%	5.4%	5.4%
■ Amortization		-0.6%	0.0%	-0.5%	1.0%	1.4%
■ Total Employer		4.4%	6.0%	5.8%	6.4%	6.8%
■ Avg Amortization Period (Years)		26.0	27.0	23.0	24.0	25.0
■ Amortization Method (\$ or % pay)		Level Dollar	Level Dollar	Level Dollar	Level Dollar	Level Dollar
Actual Contribution						
■ Employer						
◆ Percent of Payroll		4.4%	5.8%	5.9%	6.7%	5.4%
◆ Amount	\$	24,000	\$ 31,600	\$ 29,800	\$ 33,600	\$ 26,700
◆ Percent of Annual Required		100%	97%	101%	105%	80%
■ Employee						
◆ Percent of Pay		5.0%	5.0%	5.0%	5.0%	5.0%
◆ Amount	\$	27,200	\$ 27,156	\$ 25,460	\$ 24,975	\$ 24,500
■ Funding Policy: Normal Cost plus Amortization of Surplus or Unfunded over:						
◆ Period (Years)		20	20	23	24	25
◆ Approach		Open	Open	Decreasing	Decreasing	Decreasing
■ Please explain any sudden volatility in contribution pattern and why actual contribution varies from annual required contribution.		Normal operation of plan	Plan Change for Active Employees; Funding policy changed	Normal operation of plan	Additional contribution to make up for prior year contribution of 80% of annual required contribution.	Contribution below annual required contribution due to lower than expected tax revenues.
■ Report Card Comments for Current Year						
Please indicate (a) the funding policy, (b) amount of most recent employer and employee contribution including projected future contribution levels and (c) why actual contribution varied from annual required levels. This language will be used word for word in the annual report card and hence should be written to permit the public to easily understand it.						
The plan's funding policy is to contribute annually an amount which equals the value of the benefits earned during the year and a portion of any unfunded obligation. If the plan is less than 100% funded, the annual contribution equals the value of the benefits earned that year plus a payment to amortize the unfunded obligation as a level percent of pay over 20 years. If the plan is over 100% funded, the annual contribution equals the value of the benefits earned that year less a credit equal to 20 year amortization of the surplus as a level percent of payroll.						
For fiscal 2000, the employer contributed 4.4% of pay (\$24 million) to the trust. For 2000, the value of benefits earned during the year totaled 5.0% of pay. The 2000 contribution was reduced by -0.6% due to the plan's overfunded situation. The steadily decreasing contribution pattern represents the improved funded status of the plan. We anticipate contribution levels to increase up to 5% of pay as the overfunded position becomes exhausted. In addition to the employer's contribution, employee's contribute 5% of pay, or \$27 million for 2000.						
The employer contribution has differed over the years from the level required from our funding policy due primarily to the construction in 1996 of a new water treatment plant. Unless a major need for cash arises to improve the conditions of our city, we anticipate future contribution to equal the level required from our funding policy.						

# Appendix B

## State of Michigan

### Annual Financial Disclosure Report for Public Pension and Retiree Health Benefits

#### Proposed Framework

Section V: Statement of Plan Net Assets as Required under GASB 25: Enter all \$ in thousands					
Enter the following information for the last four years. The asset portfolio should be reported at the fair value of assets.					
	2000	1999	1998	1997	1996
Asset Portfolio					
■ Cash Equivalents	\$ 35,000	\$ 30,000	\$ 28,000	\$ 25,700	\$ 20,050
■ Receivables and Liabilities					
◆ Employer	-	20	15	25	-
◆ Interest and Dividends	225	200	175	150	100
◆ Liabilities	-	(25)	-	-	(50)
◆ Subtotal	225	195	190	175	50
■ Investments at Fair Value					
◆ Bonds					
● US Government Security	110,000	95,000	90,000	85,000	75,000
● Municipal	145,000	135,000	125,000	100,000	75,000
● Corporate	140,000	125,000	115,000	110,000	100,000
● Subtotal	395,000	355,000	330,000	295,000	250,000
◆ Equities					
● Domestic Stocks	847,098	756,525	654,815	685,803	600,000
● International Stocks	75,000	65,000	61,000	55,000	50,000
● Subtotal	922,098	821,525	715,815	740,803	650,000
◆ Mortgages	15,000	10,000	10,000	10,000	10,000
◆ Real Estate	125,000	110,000	110,000	105,000	100,000
◆ Venture Capital	65,000	42,500	55,000	45,000	40,000
◆ Other	750	1,100	1,200	1,500	2,000
■ Plan Net Assets	\$ 1,558,073	\$ 1,370,320	\$ 1,250,205	\$ 1,223,178	\$ 1,072,100
Portfolio Allocation					
■ Cash Equivalents	2.2%	2.2%	2.2%	2.1%	1.9%
■ Receivables and Liabilities	0.0%	0.0%	0.0%	0.0%	0.0%
■ Bonds	25.4%	25.9%	26.4%	24.1%	23.3%
■ Equities	59.2%	60.0%	57.3%	60.6%	60.6%
■ Mortgages	1.0%	0.7%	0.8%	0.8%	0.9%
■ Real Estate	8.0%	8.0%	8.8%	8.6%	9.3%
■ Venture Capital	4.2%	3.1%	4.4%	3.7%	3.7%
■ Other	0.0%	0.1%	0.1%	0.1%	0.2%
■ Total	100.0%	100.0%	100.0%	100.0%	100.0%
■ Report Card Comments for Current Year	Please indicate the general asset portfolio allocation strategy. This language will be used word for word in the annual report card and hence should be written to permit the public to easily understand it.				
The assets are generally invested in high quality securities intended to balance the level of risk with the expected level of return. Equities represent approximately 60% of the portfolio, bonds 25% with the balance allocated between other types of securities.					

# Appendix B

## State of Michigan

### Annual Financial Disclosure Report for Public Pension and Retiree Health Benefits

#### Proposed Framework

Section VI: Statement of Change in Plan Net Assets as Required under GASB 25:		Enter all \$ in thousands			
Enter the following information for the last four years. Plan Net Assets represents change in fair value of assets.					
Change in Plan Net Assets (Fair Value)	2000	1999	1998	1997	1996
■ Prior Year Value	\$ 1,370,320	\$ 1,250,205	\$ 1,223,178	\$ 1,067,277	\$ 950,000
■ Additions					
◆ Contributions					
● Employer	\$ 24,000	\$ 31,600	\$ 29,800	\$ 33,600	\$ 26,700
● Employee	27,200	27,156	25,460	24,975	24,500
● Subtotal	51,200	58,756	55,260	58,575	51,200
◆ Investment Income					
● Net Appreciation	149,859	77,653	(10,307)	116,127	84,687
● Dividends	19,184	17,503	17,124	14,942	13,300
● Interest	32,888	30,005	29,356	25,615	22,800
● Less Investment Expenses	(13,703)	(12,502)	(12,232)	(10,673)	(9,500)
● Total Additions	188,228	112,659	23,942	146,011	111,287
◆ Other	-	-	-	-	-
■ Reductions					
◆ Benefit Payments	51,500	51,000	50,000	47,500	45,000
◆ Refund Employee Contributions	-	-	2,000	1,000	-
◆ Administrative Expenses	175	300	175	185	210
◆ Total Reductions	51,675	51,300	52,175	48,685	45,210
■ Current Year Value	\$ 1,558,073	\$ 1,370,320	\$ 1,250,205	\$ 1,223,178	\$ 1,067,277
Actual Investment Performance					
■ Net Assets (Fair Value)	14.0%	9.2%	2.0%	14.0%	12.0%
■ Actuarial Value	8.8%	8.0%	7.5%	10.5%	10.0%



## State of Michigan

### Annual Financial Disclosure Report for Public Pension and Retiree Health Benefits

#### Proposed Framework

Section VII: Key Assumptions					
Enter the following information for each of the last five years. For defined benefit plans, ignore the medical trend and medical per capita information. If the plan uses salary increase assumptions that vary by age and/or service, enter the single rate which would produce similar obligation and normal cost results.					
Assumptions	2000	1999	1998	1997	1996
■ Investment Return					
◆ Nominal Rate	8.50%	8.00%	8.00%	8.00%	8.00%
◆ Real Rate over Wage Inflation	4.50%	4.00%	4.50%	4.50%	5.00%
■ Salary Rate					
◆ Wage Inflation	4.00%	4.00%	3.50%	3.50%	3.00%
◆ Merit / Promotion (Average)	1.00%	1.00%	1.00%	1.00%	1.00%
◆ Total Salary (Average)	5.00%	5.00%	4.50%	4.50%	4.00%
■ Cost-Of-Living Benefit Increases (Post-Retirement)					
◆ Rate	1.00%	1.00%	1.00%	1.00%	1.00%
◆ Simple or Compound	Compound	Compound	Compound	Compound	Compound
■ Mortality					
◆ Male	GAM83	GAM83	UP84	UP84	UP84
◆ Female	GAM83-5 Yr	GAM83-5 Yr	UP84-5 Yr	UP84-5 Yr	UP84-5 Yr

## Appendix C

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The Michigan Commission on Public Pension and Retiree Health Benefits would like to thank the following for testifying or submitting written information to the commission.

**Mark Whitman**, Assistant Vice President, State Street Bank

**Kristie Horton**, Plan Consultant, State Street Bank

**Allan C. Miller**, Retired Circuit Judge

**Mike Moquin**, Counsel, Michigan Employee Retirement Systems (MERS)

**Dave Balas**, Asst. Attorney General, Retirement Division

**George Elworth**, Asst. Attorney General, Municipal Affairs Division

**Chris DeRose**, Director , Office of Retirement Services, Department of Management and Budget

**Mark Murray**, State Treasurer

**Sandy Rodwin**, Principal, Gabriel, Roeder, Smith and Company

**C. David Williams**, Partner, Actuarial Service Company, P.C.

**Robert Reitz**, General Director of Rewards, Blue Cross Blue Shield of Michigan representing the American Academy of Actuaries

**Alvin Whitfield**, representing the State Employee Retirees' Association (SERA)

**Pat Mask**, Chair of the Retirement and Legislative Committee, Michigan Association of Governmental Employees (MAGE)

**John Klumpp**, past president of the Retirement Coordinating Council

**Laura Hess**, Senior Consultant, International Union, UAW. Representing a coalition of State Employee Unions

**Greg Wade**, State employee

**Jan Lazar**, Municipal Consultant

**Ellen Hoekstra**, Capitol Services Inc.

**Ernest Hodgers**, Manager, Local Audit and Finance Division, Dept. of Treasury

**Richard Baldermann**, Administrator, Local Audit and Finance Division, Department of Treasury

**Paul Aviews**, President, Retirement Coordinating Council

**Bonnie Carpenter**, Executive Director, Michigan Association of Retired School Personnel.

**Charles Agerstrand**, Retirement Consultant, Michigan Education Association

**Bill Baldrige**, Executive Director, Coalition to Improve Public Safety

**Micheal Reaves**, President, Michigan Association of Public Employees Retirement Systems.

**Richard Weaver**, Former Legislative Committee Chairman, Michigan Association of Retired School Personnel

**Johann Ingold**, Legislative Chairman, Michigan Association of Retired School Personnel

**Mark Jansen**, Michigan State Representative

**Pat McAvoy**, Director of Government Affairs, Michigan Townships Association

**Mark C. Gribben**, Director of Newspaper Affairs, Michigan Press Association

**Ray Sheppach**, Executive Director, National Governors Association

**Patsy Cantrell**, Treasurer, Finance Director and Clerk of the City of Farmington. (Also, chair of the Michigan Municipal Finance Officers Association Legislative Committee.)

**Ted Kennedy**, Senior Counsel, Government Affairs, American General Retirement Services

## Appendix C

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### Other Contacts:

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**Randy Taylor**, Vice President, State Street Bank

**Earl Ryan**, Executive Director, Citizens Research Council of Michigan

**Tom Clay**, Citizens Research Council of Michigan

**Scott Palladino**, National Governors Association

**Kevin Deiters**, Texas Pension Review Board

**Rick Eva**, Controller, City of Royal Oak

**Robert Queller**, Retired Executive Director, Citizens Research Council of Michigan

**Douglas Dahn**, Esq., Cox, Hodgman and Giarmarco

**Bettie Buss**, Director of Policy Projects, Detroit Renaissance

**Robert Fisher**, Ratings Analyst, Moody's Investor Service

**Parry Young**, Pension Analyst, Standard and Poor's

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**Daryl Delabbio**, Administrator/Controller, Kent County

**Steve Heacock**, Chair, County Board of Commissioners, Kent County

**Doug Hart**, State Representative

**James Koetje**, State Representative

**William Byl**, State Representative

**Steve Pestka**, State Representative

**Joanne Voorhees**, State Representative

**Patrick Malone**, Kent County Board of Commissioners

**Kurt Kimball**, City Manager, City of Grand Rapids

**Don Kottnerus**, Mayor of Walker

**James Buck**, Mayor of Grandville

**Douglas Hoekstra, Jr.**, Mayor of Wyoming

**Judy Frey**, Mayor of East Grand Rapids

**Joel Gougeon**, State Senator

**Jerry Vander Roest**, State Representative